Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition of ACS of Anchorage, Inc. Pursuant to	)	
Section 10 of the Communications Act of 1934, as	)	WC Docket No. 05-281
amended, for Forbearance from Sections 251(c)(3)	)	
and 252(d)(1) in the Anchorage LEC Study Area	)	
	)	

COMMENTS OF KETCHIKAN PUBLIC UTILITIES

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SUMMARY

Ketchikan Public Utilities believes that ACS of Anchorage, Inc. ("ACS") has demonstrated its entitlement under section 10 of the Communications Act of 1934, as amended (the "Act"), to forbearance from the unbundling requirements of section 251(c)(3) of the Act in the Anchorage local exchange market. Moreover, approval of the ACS petition is consistent with the objective of the Act to encourage facilities-based competition. ACS has demonstrated that Anchorage is a highly competitive, intermodal local exchange market. Very importantly, GCI will not be impaired in competing in that market by lack of access to UNE loops, but has elected to rely on the incumbent's network in place of upgrading its own cable system for purely economic reasons. Grant of ACS' petition will advance the goal of the Act to encourage facilities-based competition at the local exchange level. It will also relieve ACS from inherently unfair asymmetric competition relative to GCI, which has refused to grant its competitors access to its own network. The Commission should not withhold forbearance for ACS due to the fact that GCI has elected to rely on unbundled network elements in the Anchorage market. Section 10(a) is an integral component of the Act's pro-competitive, deregulatory objective and its use is particularly relevant and appropriate where it can have a practical impact on competition in a competitive local exchange market. To avoid use of the Commission's forbearance authority in this case would effectively serve to eviscerate that authority.

The City of Ketchikan, Alaska d/b/a Ketchikan Public Utilities ("KPU"), by its undersigned counsel, hereby files these comments in support of the petition of ACS of Anchorage, Inc. ("ACS") for forbearance from sections 251(c)(3) and 252(d)(1) of the Communications Act of 1934, as amended, 47 U.S.C. §§ 251(c)(3), 252(d)(1).[1]

I. BACKGROUND

KPU is a rural telephone company with approximately 9,800 access lines, providing local exchange service throughout the city of Ketchikan, Alaska. It has received certification from the Regulatory Commission of Alaska ("RCA") to provide video services through an affiliate, KPU CommVision. Once that service is deployed, KPU will forfeit its existing rural exemption per a stipulation with General Communications, Inc. ("GCI"). 47 U.S.C. § 251(f)(1)(C). GCI has made a request for interconnection in the area in which KPU CommVision is authorized to provide service.

GCI is the largest integrated communications provider in Alaska, providing local exchange, long-distance, cable television and Internet access services.[2] In 2004, GCI had consolidated revenues of $424.8 million.[3] As of the end of 2004, GCI had 112,100 local access lines in service. By that time it had achieved almost a 50% share of the local exchange market in Anchorage, and 28% of that market in Fairbanks and 32% of that market in Juneau, the state's two other largest cities. According to GCI's chief executive officer, the company controls 50% of the state's long-distance market, and is the largest provider of both cable television and

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1 DA 05-3145, released December 5, 2005.

2 General Communications, Inc. Annual Report for the year ending December 31, 2004, SEC Form 10-K ("GCI 2004 Annual Report"), at 17.

3 *Id.*

Internet access services in Alaska.[4] GCI's cable facilities pass 90% of all homes in Alaska. According to its CEO, its facilities "pretty much blanket the state."[5] These include satellite earth stations in over 200 rural communities, the fiber optic system that runs along the Trans-Alaska oil pipeline, and control of more than 80% of the connection capacity between Alaska and the Lower 48 states.

GCI operates service facilities in communities throughout the state, including in Ketchikan.[6] It has requested KPU to begin negotiations for interconnection, including for access to unbundled network elements ("UNEs"). This latter request has been stayed by the parties' previously referenced stipulation pending commencement of video services by KPU's affiliate.

II. ACS'S PETITION FOR FORBEARANCE SHOULD BE GRANTED THROUGHOUT THE ANCHORAGE STUDY AREA

A. ACS Has Demonstrated Entitlement to Forbearance From Section 251(c)(3) of the Act

KPU believes that ACS has demonstrated, in its well-documented petition, entitlement to forbearance from the unbundling obligations of section 251(c)(3) of the Act as they apply to ACS's Anchorage study area.[7] Moreover, KPU submits that approval of the ACS petition will serve the purpose of the Act, which is to advance facilities-based competition, by encouraging GCI to rely on and develop the infrastructure it has in place as its basis for its competing in the Anchorage market, rather than permitting it to take advantage of ACS's investment in its own facilities.

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4 Transcript of Jefferies Conference Call, September 20, 2005 (attached as **Exhibit A**), at 1.

5 *Id.*, at 2.

6 ACS Petition, Exhibit G.

7 Because KPU believes that ACS' petition for forbearance from the obligation to provide access to UNE loops in Anchorage is meritorious, it does not address ACS's alternative request for relief from the related pricing standards of section 252(d)(1) of the Act, which would be mooted by grant of ACS' initial request.

ACS has demonstrated that the Anchorage local exchange market is highly competitive, resulting in its loss of market share at a pace far greater than the national average for incumbent local exchange carriers.[8] The prime beneficiary of this demonstrated demand elasticity has been GCI, which has gained a market share in the Anchorage study area of 49%.[9]

Of critical importance, GCI acknowledges that its cable system passes some 98% of the homes in the Anchorage market.[10] GCI also maintains high-capacity loops and dark fiber loops of its own throughout the Anchorage market on which it could, but does not, provision service to other carriers.[11] In other regards, GCI's network already largely duplicates that of ACS. It provides all of its own switching services and is collocated in all five of ACS' central offices in the market and in two remote locations where ACS has placed switches.[12] It does not rely on ACS for any transport facilities in Anchorage.

KPU submits that the evidence of robust local market competition presented by ACS in Anchorage is at least as strong, if not stronger, than that accepted by the Commission in its recent decision to grant Qwest forbearance from unbundling obligations in the Omaha market.[13] Such evidence of competition for market share, combined with the potential for facilities-based intermodal competition as a result of both GCI's extensive cable facilities and existing fiber optic plant in Anchorage, constitutes sufficient basis to justify the Commission concluding that affording competitive carriers access to ACS' UNE loops is not necessary to (a) ensure that

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8 ACS Petition, at 30, n. 134.

9 *Id.*, at 7; n. 26.

10 *Id.*, Exhibit J, at 5.

11 *Id.*, at 12. GCI services certain office buildings and other major customers in Anchorage using its own fiber facilities.

12 *Id.* at 10-11.

13 *Petition of Qwest Corporation for Forbearance Pursuant to 47 U.S.C. § 160(c) in the Omaha Metropolitan Statistical Area*, WC Docket No. 04-223, FCC 05-170, released December 2, 2005 (hereinafter, *"Qwest Forbearance Order"*), ¶¶ 57-58.

ACS' charges and practices in offering its services will be just and reasonable and not discriminatory or (b) protect consumers in the Anchorage market, and that forbearance from enforcing that requirement will be consistent with the public interest.[14]

Finally, as argued by ACS,[15] KPU urges the Commission to approve the request for forbearance for the entire Anchorage study area. ACS has demonstrated that, in light of GCI's extensive cable plant, GCI's ability to compete throughout the study area is uniform, and forcing ACS to adopt different rates for different portions of its service area would lead to onerous facilities-sharing management requirements.

B. GCI is Not Impaired in Competing in Anchorage Without Access to UNE Loops

In the *Qwest Forbearance Order*,[16] the Commission found that Cox Cable is providing effective intermodal competition to Qwest in portions of the Omaha market through use of its own, extensively deployed last-mile cable facilities. The record in the instant proceeding demonstrates that GCI has equal capability to that of Cox to compete with the incumbent provider on a facilities basis, but has elected not to do so for economic reasons.[17] In testimony given by GCI to the RCA as well as in the public statements of GCI's CEO and other executive officials,[18] GCI has made clear both its capability and intention to transition its customers in

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[14] Section 10(a) of the Act, 47 U.S.C. § 160(a). The Commission has also determined that the requirements of subsection (d) of section 10 of the Act, 47 U.S.C. § 160(d), have been fulfilled "for all incumbent LECs nationwide" as a result of the Commission's own rules implementing section 251(c) of the Act. *Qwest Forbearance Order*, ¶¶ 53-54.

[15] ACS Petition, at 26-29.

[16] *Qwest Forbearance Order*, ¶ 59.

[17] *See* GCI 2004 Annual Report, at 32: "As a converged platform, cable is a viable competitive alternative outside its traditional video space, not only in the broadband space as a competitor with technology such as DSL, but also in traditional telephony services as voice becomes another application that is carried on data centric networks."

[18] ACS Petition, at 3, 7-9, 12-13.

Anchorage from UNE loops acquired from ACS to its own cable telephony facilities. However, the pace at which it will execute this migration is dependent on the price at which such unbundled facilities are made available. In effect, GCI's request for access to UNE loops in the Anchorage market is not motivated by any operational impairment, but by a desire to control when and how GCI will make its investment to deploy its own facilities in competition with the incumbent. It is submitted that the public interest value of its objective should be judged in this context.

Further evidence of this manipulative approach by GCI to UNE loop access exists in the Alaska market. In its application to the RCA for certification as a local exchange carrier in a number of new markets, including KPU's study area, GCI represented to the state regulatory commission that it is fit, willing and able to provide service throughout the requested service areas without benefit of either UNEs or resale services at wholesale rates.[19] Based on this representation, the RCA has approved GCI's application to provide local exchange service in a number of its requested markets. Nevertheless, three months after filing this application, and while its application was still pending with the RCA, GCI formally requested KPU to begin good faith negotiations for unbundled network elements, pursuant to sections 251 and 252 of the Act, even thought KPU's rural exemption remained in effect.

A similar request to Matanuska Telephone Association ("MTA"), which had lost its rural exemption as a result of its entry into the video services market, resulted in MTA's successful petition to the RCA under section 251(f)(2) of the Act for suspension of its obligation to negotiate GCI's access to UNE loops in its service area. In its decision, the state commission

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[19] *Application by GCI Communications Corp. for an Amendment to its Certificate of Public Convenience and Necessity to Operate as a Competitive Local Exchange Telecommunications Carrier*, Docket U-05-4; at 3-4.

rejected GCI's impairment argument, finding that it had advanced inconsistent arguments regarding its need for UNEs as a vehicle for competing effectively in MTA's market.[20] Although GCI had given testimony – similar to the representations cited by ACS in the present petition – that it intended to migrate its subscribers in MTA's study area to its own cable facilities, the RCA found that the economic advantages and decreased risks made available to GCI by its access to UNEs at TELRIC rates created a disincentive for GCI to deploy its own facilities.[21] Taking into account the relative size and scope, financial resources and economies of scale of GCI in relation to MTA, and its greater ability to withstand loss of revenue and market share than the competitor, the RCA concluded that it was not in the public interest to require MTA to provide the larger competitor with access to its UNE loops at TELRIC rates.[22]

In summary, GCI's argument for access to ACS' UNEs in the Anchorage market, consistent with its UNE strategy in general, is not designed to overcome operational impairment, but instead to afford GCI economic choices regarding where and when to target its investments dollars to deploy its own facilities in competition with the incumbent operator. Requiring the incumbent operator to support reducing the risks of its competitor's entry into the market in this manner is clearly a distortion of the original purpose contemplated for UNE competition under sections 251(c)(3) and 251(d)(2) of the Act. As a result, ACS' petition for forbearance should be granted at least in relation to GCI in the Anchorage study area.

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[20] *Petition for Suspension and Modification of Certain Section 251(c) Obligations Pursuant to Section 251(f)(2) of the Telecommunications Act of 1996 filed by Matanuska Telephone Association, Inc.,* Order U-05-46(8), issued December 20, 2005 ("*MTA S&M Order*"), at 40-41.

[21] *Id.*, at 14.

[22] *Id.*, at 44. For rural carriers like KPU and MTA, GCI's access to UNEs would have a particularly devastating effect, since the competitive carrier would not only be entitled to high-cost universal service loop support for ported customers based on the incumbent's cost basis, but the incumbent's own high-cost support for such customers would be ported from the incumbent to the competitive carrier.

C. Grant of ACS's Petition Would Advance Facilities-Based Competition in the Anchorage Market

The Commission has long expressed its preference for facilities-based competition over the use of UNEs.[23] In the *Qwest Forbearance Order*, the Commission observed that permitting new market entrants the right to compete with incumbent LECs in their markets by leasing at TELRIC-based rates UNEs of the incumbents own networks constitutes a "high degree of regulatory intervention" that results in a number of costs, including reducing the incentive of both the incumbent and the competitor to invest in facilities and innovation, and creating complex issues of managing shared facilities.[24] The RCA sounded the same concern in its decision denying GCI access to UNEs on MTA's network.[25]

Approval of ACS' petition for forbearance will advance this policy objective of the Act in the context of the Anchorage market. The record evidences that GCI has the infrastructure on which to offer facilities-based competition to ACS, and it should be encouraged to make the additional incremental investment necessary to implement such competition in the public interest.

D. It is Not in the Public Interest to Subject ACS to Asymmetric Regulation

In addition to the public interest factors discussed above, denial of ACS' petition would unnecessarily and unfairly prolong asymmetric regulation of ACS and GCI as competitors in the

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23 *See Unbundled Access to Network Elements*, FCC 04-299, released February 4, 2005, ¶ 218; *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, 15 FCC Rcd 3696, 3701 (1999); *United States Telecom Ass'n v. FCC*, 359 F.3d 554, 563 (D.C. Cir. 2004).

24 *Qwest Forbearance Order*, ¶ 76.

25 *MTA S&M Order*, at 46 (citing *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, 18 FCC Rcd. 19020 (2003) ("*Triennial Review Order*")).

Anchorage market. As a competitive carrier, GCI is not subject to the unbundling obligations of section 251(c)(3) of the Act faced by the incumbent. Thus, even though GCI operates fiber loops of its own to which ACS and possibly other competitors would like to have access, GCI is not required to provide access to those facilities to its competitors and, in fact, has "vehemently opposed" ACS's request for unbundled loop reciprocity during interconnection agreement negotiations.[26]

Both this Commission and the Alaska state regulatory commission have recognized the inherent unfairness of this circumstance. As stated by the Commission in granting Qwest forbearance from section 251(c)(3) obligations in certain portions of the Omaha MSA:

> "Once the benefits of competition have been sufficiently realized and competitive carriers have constructed their own last-mile facilities and their own transport facilities, we believe that it is in the public interest to place intermodal competitors on an equal regulatory footing by ending unequal regulation of services provided over different technological platforms. Even though Qwest and Cox each provide service over their own facilities to [REDACTED] narrowband customers in the Omaha MSA [footnote omitted], Qwest is subject to unbundling obligations while Cox is not. Our action today places Qwest and Cox on more equal footing in those wire center service areas where facilities-based competition is sufficiently developed such that taking this step to increase the level of parity in the local exchange market is appropriate."[27]

Grant of the pending petition for forbearance will similarly relieve ACS from such inherently unfair asymmetric regulation in the Anchorage market.

E. GCI's Reliance on UNEs in Anchorage <u>Does Not Justify Denying ACS's Petition</u>

In its *Qwest Forbearance Order*, the Commission noted that Qwest's competitors make relatively little use of access to UNE loops in the Omaha market and cautioned that it would be concerned with granting forbearance from unbundling obligations in a market in which

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26 ACS Petition, at 13-14.

27 *Qwest Forbearance Order*, ¶ 78. *See also MTA S&M Order*, at 46.

"competition exists only due to section 251(c)(3)."[28] The Commission cited in support of this cautionary note an *ex parte* submission by GCI which argued that "a situation where the primary competitor has relied on UNE-L for customer acquisition raises very different issues than those before the Commission in the instant [Omaha MSA] proceeding." GCI, of course, was attempting to lay the basis for distinguishing the precedential effect of the *Qwest Forbearance Order* from the instant proceeding.

KPU strongly urges the Commission not to follow GCI's reasoning in this case. In the Anchorage market, GCI's ability to compete does not depend on the availability of UNE-L. To the contrary, GCI has simply chosen, for economic reasons, to use the incumbent's UNEs in place of offering facilities-based competition which it admits it is capable of providing. As explained in ACS's petition, GCI has laid out in its testimony to the RCA and in its pronouncements to the investment community its strategy of moving subscribers off of UNE facilities and onto its own cable plant, but only according to its own timetable. As has been analyzed above, GCI's access to UNEs under these circumstances places ACS in an inherently unfair competitive position, in which its network is utilized at TELRIC-based rates in competition with it until such time as its competitor considers it in its own interest no longer to do so.

In any case, ACS has made it clear in its petition that it will not withhold access by GCI to its UNEs (as GCI has done in response to ACS's request for access), but will ask that GCI negotiate for such access on the basis of commercial rates. Thus, under no circumstances will GCI be deprived of the opportunity to continue to make use of ACS's UNE loops.

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28 *Qwest Forbearance Order*, ¶ 68, n. 185.

While the Commission has expressed concern in the *Qwest Forbearance Order* with refusing unbundling in circumstances where its would constitute "circular justification," KPU submits that denying forbearance because its grant would effect the interests of the competing parties is itself circular reasoning. Stated another way, what is the benefit of the Commission's forbearance authority under the Act if it is to be used only when its use is not needed?

Indeed, the Commission's acknowledgment of GCI's *ex parte* contribution in the Qwest forbearance proceeding does violence to the very purpose of the Act's forbearance authority. As pointed out by ACS in its petition, section 10 of the Act was adopted to facilitate the Act's pro-competitive and deregulatory purposes, and was viewed by the Congress as a key mechanism for achieving that goal.[29] The Commission recognized the "integral" role of section 10 of the Act to help establish a deregulatory framework for local competition in the *Qwest Forbearance Order* itself.[30] In the *Triennial Review Remand Order*, the Commission expressly encouraged incumbent LECs to file for forbearance from unbundling requirements where they believe the requirements for forbearance have been met.[31] The Commission would effectively eviscerate section 10 of the Act if it were to determine that its should not be used in circumstances where its application can have an effect on the competitive market.[32] KPU urges the Commission to avoid this illogical result.

Conclusion

For the reasons set forth above, KPU supports ACS' petition for forbearance from the unbundling requirements of section 251(c)(3) in the Anchorage market, and urges the

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29 ACS Petition, 18-19.

30 *Qwest Forbearance Order*, ¶ 13.

31 *Unbundled Access to Network Elements*, FCC 04-290, released February 4, 2005, ¶ 39.

32 As the Commission did in the *Qwest Forbearance Order*, the Commission can, in granting ACS's petition, mitigate any short-term disruption to GCI's customers supported by means of UNE-L by providing for a reasonable transition period.

Commission to move expeditiously in granting the petition in order that ACS may be placed on a fair playing field with its prime competitor at the earliest possible time.

Respectfully submitted

KETCHIKAN PUBLIC UTILITIES

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General Communications, Inc. -Ronald Duncan - President & CEO
Jefferies Conference

Good morning. If everyone can get settled for General Communications, Inc. it would be greatly appreciated. Today we have Ronald Duncan, President, CEO and co-founder presenting. Mr. Duncan is one of the founders of GCI and has been president and CEO since 1989. He previously served GCI as an executive vice president. Mr. Duncan serves on the board of directors of the national cable and telecommunications Association. He is the past chairman of the Anchorage Economic Development Corp. and the Alaska Science Technology Foundation. Prior to starting GCI Mr. Duncan founded and was president of an Alaska based cable and television company and was a partner at a management and economic consulting firm. Mr. Duncan received a bachelor's degree in economics from John Hopkins and an MBA from Harvard Business School. Please welcome General Communications.

Thank you and good morning. I appreciate the time you've taken to learn a little bit about GCI. I see some familiar faces in the audience and a few new ones, I'll be happy to take some additional questions at the end of this session and I think we still have some time in the one-on-one scheduled later in the afternoon if anyone's interest is piqued by the presentation this morning.

Today GCI is the largest communications company in Alaska. We start out a little more than 20 years ago as a new entrant in the long-distance business, built that up to about a 50% share in the long-distance market over a 10-year period. And then in the early 1990s the anticipation of convergence in the telecom space acquired virtually all of the cable properties in the State of Alaska. Today we own cable systems passing more than 90% of the homes in the state and those are our primary platform for the ultimate wire to the end-user for the delivery of fully integrated services.

We are also a facilities-based local phone company. Today the majority of our local phone service in Alaska is on the rented copper wires of our competitor. We are at the front-end of converting that from the copper loops to the cable plant. We have achieved more than a 50% share of both the consumer and the enterprise market in Anchorage where we have been the longest on local service. We have shares in the mid-30s, approaching 40% in Fairbanks and Juneau and we are continuing to build out the local footprint throughout the state with the anticipation of ultimately providing local service to the full 90% that we address with our cable plant.

We are also far and away the state's largest Internet service provider with 60% last year of the high-speed market, a very significant share of the dial-up market. We've really sort of taken the integrated bundle and made it work, it looked a lot like the AT&T strategy with the primary difference being we had a better outcome than they did.

Alaska is a great place to be doing business but as you folks wring your hands and lament each dollar increase in the price of a barrel of oil we sit back and count the additional $70 million a year that comes into the state treasury for each of those dollar increases so it's a little hard for us to be as upset as you may be at the price of gasoline or the price of oil. Alaska is a very hot economy right now, a combination of the resource spending and a good strong federal government spending, the almost certainty that there will be a natural gas line from Prudhoe Bay through Canada to Alberta and then down into the middle of the country which is a 25 billion-dollar project that may drive as much as 25% employment growth in Alaska over the next 5 to 6 years.

Very, very high disposable income level, supported in part by a lack of any relevant state tax structure, no sales tax, no income tax the state actually hands out cash to all the people who live in the state and a very very good economic base for us going forward so it's a very attractive market to be providing the services we provide.

I grew up here in New York and I like to ease my friends here into the concept of where Alaska really is. If you pull out Rand McNally you'd think that we have a little better climate than we do, actually it's pretty nice in the summer but we're about to get into a little darker, colder period. Well to the north and well to the west, a long way from any connection with the rest of the world and apologies to my friends in Texas, a very, very large state.

This is important to think about when you consider the telecom environment in this state because in spite of that size there are fewer miles of road in the State of Alaska than there are in Rhode Island. Virtually none of the communities have terrestrial connectivity so the only way things get around the state are by air or by water. It creates an environment when you look at the distances involved that if you can substitute the virtual delivery of service with the physical delivery of service the savings are much, much greater than they are in other places in the country.

GCI pretty much blankets the state with its facilities. We have satellite earth station facilities in more than 200 small communities around the state where we provide the local and the data services and the long-distance services for the schools, the health care facilities and the consumers. We own and operate the fiber optic system that runs along the Trans-Alaska oil pipeline and we own the only redundant ring of fiber-optic, undersea fiber optic system that provides the connectivity to the state. We've got ownership of more than 80% of the total connection capacity to and from Alaska today. That footprint is what drives our very, very high shares of the inter-exchange market for both enterprise and consumer services and makes us the primary provider of services to other carriers in and out of the Alaska market.

Our business strategy going back to the mid-90s was essentially to provide the complete bundle of services and to use our existing customer relationships initially in cable and long-distance to up-sell and cross-sell for better and deeper penetration into the consumer marketing base. That has worked very, very well for us, we've created an environment where we have driven average revenue per consumer customer up north of $160 a month through a combination of local, long-distance, Internet and most recently wireless services. I think one of the reasons we were successful as opposed to a series of other companies that tried this early on down here was we kept our focus on a single market and we had adequate capital resources to carry that out.

If you look at the business today it's important to look at what drives the sources of EBITA. If you take a cursory look at the company what you'll see is something slightly more than 50% of the revenues come out of the segment that's labeled long-distance. Most people get the cold shivers right there thinking of long-distance as a toxic business and gee, there must be something wrong with the company. We think it's more important to look at what really drives the EBITA for the business and when you break that down what you see is that over the last four or five years video has been fairly stable at about a quarter of the EBITA, the data segment has been consistently growing.

If you've seen this slide a few years ago you would have seen data at about 30% of total EBITA now up above 50 and I think continuing to grow. And on the voice side the majority of the voice business is the carrier business, that's the service that we sell through MCI and Sprint and other carriers for the origination and termination of their services in Alaska. While that's technically long distance it's much more like an access service than it is the conventional consumer long-distance. A very different mix to the business.

Looking forward I think continued growth on the data side, data is basically eating up the rest of the business. What's really happening is services that used to be provided discreetly such as voice are becoming collapsed more and more into the data side of the business. Data is a good business for us to because it has very high EBITA margins. We have basically constructed all of the facilities we need, we own the undersea fiber optic cables to and from the state, we have a good 30 years of capacity in those cables. Adding additional data services really is a function off provisioning additional channel cards in the existing network. You've probably got 80% plus EBITA margins on the data services and the data business continues to grow as there is both new investment in the state and increased deployment of IT to support the expanding economic base in Alaska.

On the voice service front we are the largest provider by a long shot of long-distance services in the state. We serve both the consumer and the carrier customers. We've got about a 60% share of the enterprise market, not quite 50% share of the consumer market and the vast majority of the carrier market, the MCI's, Sprints and basically all of the traffic other then AT&T's traffic to and from Alaska rides on our network.

About 170 million in revenue, a lot smaller piece of the EBITA. Again, highlighting the voice side of the business is the lowest margin piece of the business that we provide but it provides a very significant footprint in the consumer space that we lever the rest of our services off of.

The data business includes consumer data which is the dial-up and high speed internet platform, that's about $40 million of the $170 million data total. It includes the commercial data services which are the enterprise and the carrier services and that's about 90 million of the data total. Then we run a data platform in rural Alaska that operates off of our 200 earth station satellite networks and provides high-speed data and video connectivity primarily to the schools and the health care providers in the state and that drives about 40 million of that revenue. As you can see on average a much higher EBITA margin for the data business and if you track that over the last several years you will see that that percentage EBITA margin on the data has been growing as the data volume grows because the fixed expense of that business is largely stable, incremental revenue largely falls through the bottom line.

The cable business, just shy of 100 million a year in cable revenues. Good margins on the cable side. This presentation of cable excludes cable modems so if you look at those margins they look a little different than you might see reported for cable companies down here. The cable modem which is a high-margin product reports for us under the data side of the business. Passed 90% of the homes in the state, almost all of our customers are served digitally, we have only several small systems where there's even an analog signal left on the planet. We did a complete digital conversion several years ago with a mind back then that 97% of the boxes in the field are digital boxes, today most of the plant has been upgraded, it's all capable of supporting data in fact data is delivered in all of the plant and in the Anchorage and Juneau areas which are currently in the process of converting the cable plant to support network powered telephony so that we can migrate off of the copper loops that we are leasing from the incumbent phone company to support our 50% share of the local phone market.

That project is a project that will occur over the next three years, we will spend another 75 million for a total of about 100 million to upgrade the plant to provide full telephony services. When we're done with that we will be saving $25-$30000000 a year that we are currently paying to our local telephone competitors for the lease of the copper loops, and we will have the vast majority of our phone service on our own facilities.

We sort of live and die by bundling. Bundling has been the most significant single piece of our strategy and it has had tremendously positive results for the company. What we see is very dramatic reductions in churn for bundled customers. Basically the more services a customer buys from you the less likely they are to leave. We also have found a tremendous upside on the revenue front from the cross-selling and up selling that goes with bundling.

The average customer makes for calls a year into GCI customer service. One out of every five calls that comes into our customer service group results in some form of a new revenue stream for the company. It may be as little as additional e-mail addresses for two bucks a month or it may be a $20 speed upgrade on your cable modem but that is what's behind the fact that in each of the last five years we have added more than six dollars per month to the average revenue per customer for our fully bundled services and that doesn't seem to be tapering off. As we bring new products to the market we are able to sell them into the existing customer base and significantly increase the total average revenue per customer driving down churn in the process.

The bundled customer is much more efficient for us to serve. Basically the fixed cost of keeping a customer in the customer service system, the billing system, the processing system, doesn't vary with the number of services and the amount of revenue you are getting from that customer so a much higher incremental margin coming off of selling an additional service to an existing customer than selling a single service to a new customer.

This gives you a peak, a quick view of how the revenue of the company on the consumer side breaks down. What you see is that the great majority of the revenue was tilted towards the 2, 3, and 4 product bundles and I think you will see this graph essentially sloping more and more to the bottom right as we drive the bundle deeper and deeper into the existing customer base and focus on serving customers who are GCI customers for all of their services.

Basically our theory of bundling is that if you get them in the door you provide them a quality service and you answer the phone when they call in, that they really don't have any reason to go anywhere else. So the mission once you've got them in the door is getting that phone answered and resolving their problems and keeping the network quality up. If you do that, this is a really good business.

We're fortunate to be in a market where there aren't 15 competitive entrants, it's essentially a 2 1/2 player market, it's us, the incumbent local phone provider ACS and then AT&T competes at the margin for long-distance services but they are not a highly significant player in the market anymore so it's not as intensely competitive as many of the other market's down here. There really hasn't been any price wars in the market in the last several years, that adds to the benefit for all the players in the market but our mission at this point is to provide the quality of service and drive the bundle deeper and deeper and build the quality of the customer base.

A couple of things that happened this year that are relative to the business. First of all in the first half of the year we extended both of our major carrier contracts, the ones with MCI and Sprint for an additional three to five year period. That takes what's a large piece of the revenue stream and ensures that it continues in the intermediate term, the reality is if you go back to that first map with all the dots on it there's nobody else that can take their traffic to and from all those locations and provide a secure, redundant network so there is very little probability that the traffic ever goes anywhere but it gives us and our investors a higher degree of comfort to have the carriers on longer-term contracts.

We announced several weeks ago a company reorganization. We are shifting our focus from product groups to customer groups. Historically, we have grown and been built around product lines so we had a general manager for the cable product, a general manager for the Internet product and for the carrier products and the like. What we recognized is that as the technology continues to evolve there is really less and less distinction among the products and the bundle leads us to focus on the customer group rather than the product denomination.

In fact, most of our customers don't see any distinction anymore on their bill between local, long-distance and Internet. They are typically buying a fixed-price package of services that includes different components but the pricing of those components isn't broken out separately. So we've reorganized the company into consumer, enterprise and carrier business segments and we are going to create a structure that gives each of those segments the end-to-end responsibility for the full delivery of all services to the customer segment.

In the process we were able to trim six or 7% out of the workforce by streamlining some of the processes and procedures, some of that driving off of the implementation of a new IT system that replaces all but one of our legacy IT and billing systems that just went live here in the last several weeks. So we think there's an opportunity to both make the company faster and more efficient going forward and the general outline of that was announced several weeks ago.

We also just in the last couple of weeks completed a refinancing of our senior debt. We trimmed about 1.8 million a year out of our run rate interest costs and refinanced 160 million in senior debt in a way that will leave us with very, very relaxed covenants and basically no principal payments for the next five or six years.

Financially, if you look at the business it has consistently grown both revenue and EBITA. The average numbers come down over time as the base level's gone up. The incremental increase in revenues in EBITA has gone down but if you look at the trend line what you see is that each and every year is an up year, an unusual sequence for telecommunications company, particularly one that has parts of its business that act as an incumbent operator but basically a continuous stair step up. And if you were to go back all the way to 1982 when we first launched service you would see the same consistent increase in revenue each and every year.

If you do the same thing on EBITA you will get exactly the same trend line, if you went all the way back to the beginning you'd discover a little bit of an erratic nature in EBITA in the very early years but basically we have consistently grown the company each and every year. Some years more than others but it has been a steady progression through the marketplace and while the percentage rates are slowing down, as the base builds we don't anticipate either revenues or EBITA going down.

As we look forward there is basically three areas that drive the continued growth of the company. The first is that data segment which I've told you I think will continue to consume increasing percentages of the total EBITA. The top line in that area is probably growing 10% that could accelerate a little bit here with the gas pipeline and oil investment in the state as we see more economic activity. But the major government and corporate players continue to deploy new IT, continue to take more of their services remotely to other locations and there's an increasing investment in social services, the education and health care delivery in rural Alaska. Because the data service has such high incremental EBITA margin it drives EBITA much faster than revenue growth.

The cable plant also presents a significant upside, not as much on the revenue side as on the expense savings side and as we migrate off of the rented copper loops from the incumbent local phone company onto our own cable facilities we will take 25 to 30 million a year that we are paying to our competitor today and we will keep that in our pocket. The total capital investment on that all-in is something less than $100 million.

On the local service side today we competitively address 60% of the telephones in Alaska with local service. We have cable plant passing 90% of the homes in the state so essentially we have the opportunity to expand the footprint of the competitive local service by about 50%. There is a regulatory lag involved with that. We have to spend 12 to 18 months doing a little dance in front of the state regulator to get the certification and to force the local phone companies into the interconnection and the number portability arrangements. We are working our way gradually through that process and I expect that within the next four years we will be offering a competitive local offerings throughout the complete cable footprint and there is significant room to grow the total size of the local, the competitive local business in Alaska.

The company is relatively under levered. We are 3.4 times all-in debt to EBITA, very lowly levered on the senior side, could clearly carry more leverage than it does but today we don't have good uses for the cash. I'll talk in a minute about one opportunity that we are trying to keep some dry powder in reserve for but from a leverage perspective, basically very low leveraged today and very good coverage.

If you look at the company's performance the top line here takes the EBITA, this is designed essentially to get you down to a bottom line that shows residual cash flow or cash flow that is surplus to our needs and to date what we have been doing with that cash flow is largely funding equity buybacks. We need to be a little careful there in the 04 and 05 columns because there are some buybacks shown in the column. The bottom number is not necessarily free cash flow. For instance in '05 you need to add in the 15 million buybacks year to date that have already occurred to the 14 million projected surplus cash for the balance of the year.

At the present time we are operating on an authorization from the board for a $5 million per quarter equity repurchase. With the recent Senior refinancing there are no consents or anything that are required to effect that buyback. As the free cash flow accelerates and you can see that that's going to grow more into the 40 million plus range next year, we anticipate continuing to increase the size of the equity buybacks.

To date we have repurchased almost 10%, 9.2% of the total outstanding shares in the company and as I mentioned we expect that to continue going forward into the future. This chart gives you a view of the valuation. Basically across the top is the total enterprise value on a fully diluted basis assuming that all outstanding options were exercised. It then takes any flavor of the last three years EBITA and divides it into that to get the multiples. So focusing on the $10 price which is about where we are now in 2005 EBITA you can see that we are trading at less than seven times current years EBITA.

If you were to look forward to next year it's something in the order of say $155-158 million in EBITA you'd be pressing that down much closer to 6. So, we think there is substantial room on the growth side for the equity because we think the multiple is undervalued. We think it's a good stable base for the company. I did mention earlier that one of the things we were trying to do was keep some dry powder available. We've made no secret over the fact that we lust after the Alaska wireless property that is currently owned by Dobson.

We have a resell relationship with Dobson and we sell their product as part of our bundle. Today, we think we could drive very significant synergies in the operation of that asset in that marketplace and at some point we certainly hope that we end up owning that property. One of the reasons to keep the leverage where it is today is so that we could facilitate that transaction and that would do a lot for us both strategically and from the bottom-line perspective it would be an immediate generator of substantial additional free cash flow.

And then of course here is our Banes-Oxley disclaimer and if you have any questions I'd be happy to entertain them now or after the session.

(QUESTION)

I don't think Dobsons under any pressure to sell and they certainly have indicated that to us. I also am skeptical that Dobson will be a stand-alone wireless company for the next five years. There seems to be a fairly significant consolidation going on in that business. There seems to be some premium values right now, I think in part because of the consolidation that is going on. There aren't any potential buyers for that property for whom Alaska is strategic. If you look at Cingular or US Cellular, no operations in the Alaska market, no reason why they'd need to own that asset. We can probably increase the EBITA of the Alaska asset by 50% or more through the elimination of duplicate expense with the things that we are doing so we could pay a very significant premium to the trading multiple for those properties and still buy them at an effective discount to what we can realize in terms of achieved EBITA.

And we are in the unique position of being one of the only ones who are able to do that. Dobson operates a large number of stores in this state, we operate more, we wouldn't need any of those, we wouldn't need the sales people, it fits in with our existing billing programs, it would fit right in with our existing advertising, we wouldn't really increase our advertising budget, we'd provide all the transmission and distribution and linkage for the system. Today, if you just go down the list of synergies they are enormous so in the long run we are the logical owner of that asset but not until Dobson's own strategy comes around to selling it. It's a real good fit for us and they know we lust after it every time I see Everett I tried to talk to him about it but he's clearly not ready to sell.

Anything else? Well thank you very much and we will be available after this and throughout this afternoon as well.

Exhibit A